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ABSTRACT

The Balanced Budget and Emergency Deficit Control Act of 1985, as amended, establishes deficit targets to lead to a balanced unified budget by fiscal year 1993. If the Office of Management and Budget projects a deficit in excess of the target amount plus $10 billion, the President must issue a sequester order to reduce budget resources sufficiently to reach the target deficit level. The fiscal year 1990 sequester reduced the Department of Education's budgetary resources by $266.1 million, or 1.1 percent of its $24.5 billion budget authority for the year. Department officials believe the sequester's overall impact was minimal. After the sequester, the Department's funding was 5.1 percent higher than in fiscal year 1989. The greatest negative impact was reported in two departmental accounts that experienced funding difficulties beyond those created by the sequester: Program Administration and Office for Civil Rights. (MLF)

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United States General Accounting Office

GAO

Fact Sheet for the Chairman, Committee on the Budget, House of Representatives

August 1990

# BUDGET ISSUES

# Effects of the Fiscal Year 1990 Sequester on the Department of Education

U.S. DEPARTMENT OF EDUCATION

EA 022 263

GAO/HRD-90-150FS

GAO

**United States**
**General Accounting Office**
**Washington, D.C. 20548**

**Human Resources Division**

B-240611

August 3, 1990

The Honorable Leon Panetta
Chairman, Committee on the Budget
House of Representatives

Dear Mr. Chairman:

This fact sheet is one of a series responding to your request for us to study the effects of the fiscal year 1990 sequester at selected agencies. It presents information regarding the Department of Education. The study's objectives were to identify (1) how resources were reduced by the sequester and (2) what impact the sequester had on the Department's ability to fulfill its mission and on those served by its programs.

## Background

The Balanced Budget and Emergency Deficit Control Act of 1985, as amended, establishes deficit targets to lead to a balanced unified budget by fiscal year 1993. Each year the Office of Management and Budget (OMB) submits an initial report on August 25 and a final report on October 15, projecting the fiscal year deficit. If OMB projects a deficit in excess of the target amount plus $10 billion, the President must issue a sequester order to reduce budget resources sufficiently to reach the target deficit level. The amount to be sequestered must be divided between defense and nondefense programs. Sequestration has been implemented only once before, in fiscal year 1986, when defense and nondefense budget resources were reduced by 4.9 and 4.3 percent, respectively.

The act set the fiscal year 1990 deficit target at $100 billion. The August 1989 OMB report estimated a $116.2 billion deficit, exceeding the target by $16.2 billion; the October report slightly reduced the overall estimate to $116.1 billion. To comply with the act, both reports would have required a sequester of 4.3 percent in defense programs and 5.3 percent in nondefense programs. Sequestration of this magnitude, however, was not implemented.

The Omnibus Budget Reconciliation Act of 1989, enacted on December 19, 1989, reduced the mandatory sequester amount to 130/365 of the $16.1 billion reduction called for in OMB's October report. This change effectively reduced sequester requirements to $5.7 billion—1.5 percent in defense programs and 1.4 percent in others. In response to this legislation, OMB published its Revised Final Sequester Report on December

27, 1989, which specified the $5.7 billion reduction. The President issued the New Final Order on the same date.

Certain rules apply to sequestration when agency appropriations laws are enacted after the October 15 sequestration deadline. The Department of Education's appropriation was not enacted until November 1989. As a result, the amounts and percentages by which its budget accounts[1] were reduced by sequestration frequently varied from the 1.4-percent reductions OMB specified in its final sequester report. Some of the Department's accounts lost less through sequestration than the 1.4 percent shown in the report because appropriations differed from the sequester bases OMB used to compute the reductions in accordance with the law. These rules are discussed in greater detail in appendix I.

## Results in Brief

The fiscal year 1990 sequester reduced the Department of Education's budgetary resources by $266.1 million—1.1 percent of its $24.5 billion budget authority for the year. It decreased funding for 14 of the agency's 19 budget accounts receiving budget authority subject to sequester, with reductions ranging between 1.2 and 1.4 percent for each account. (See app. II.)

Department officials believe the sequester's overall impact was minimal, for several reasons. After the sequester, the Department's funding was 5.1 percent higher than in fiscal year 1989. Although program appropriations were reduced from initial fiscal year 1990 levels, net funding for most of the Department's programs exceeded that available in the prior year. In addition, many of its programs, such as chapter 1 and Pell grants, do not disburse their funds until several months into the fiscal year for use into the subsequent year, allowing the Department and state and local education agencies (LEAs) time to make adjustments with minimal disruption to the programs. In general, the Department believed the sequester would not adversely affect its major program recipients. (See app. III.)

The greatest negative impact was reported in two departmental accounts that experienced funding difficulties beyond those created by the sequester. Program Administration, which provides administrative funds, including salaries and travel, for most of the Department,

[1]Budget accounts are the primary appropriation categories displayed in The Budget of the United States Government. Examples of Department of Education budget accounts are impact aid and higher education.

absorbed an across-the-board pay raise in addition to the sequester. Office for Civil Rights officials told us their office was faced with prior financial difficulties stemming from legislation that expanded the office's authority. They maintained staff and budgetary resources had not kept pace with the resulting increase in work load. In addition, the office absorbed the costs associated with the pay raise. The factors affecting the two accounts, in conjunction with the sequester, generally resulted in Department-wide reductions in funds for computer equipment, travel, and technical assistance functions. However, after the sequester, net appropriations for both accounts exceeded fiscal year 1989 levels, by 9.1 and 7.1 percent, respectively. (See pp. 14-15.)

## Scope and Methodology

As you requested, we examined five departments and agencies; one of those we selected was the Department of Education. With respect to its budget—about $24 billion in budget authority for fiscal year 1990—the Department ranks in the middle among the five agencies examined. We selected the Department of Education because it administers a wide range of grant and loan programs. Its programs provide grants to support educational and related services to special-needs populations, including disadvantaged elementary and secondary school children, handicapped children, and mentally and physically disabled people. In addition, it supports grant and loan programs to provide financial assistance to eligible students for postsecondary education.

To determine how resources were reduced by the sequester, we obtained data demonstrating the Department's allocation of the reduction by programs within each of its 19 budget accounts receiving budget authority subject to sequester. We also gathered data on the Department's available funding for fiscal year 1989,[2] and compared this with fiscal year 1990 funding after sequester. Data for our analyses were obtained from The Budget of the United States Government, Fiscal Year 1991 and the Department of Education.

To identify the sequester's impact, we interviewed Department officials regarding implementation strategies in the program offices administering the Department's five largest programs, as well as officials for those areas the Department believes experienced the greatest negative impact. We also requested data from the Department to measure the

[2]We defined available funding for each budget account as the net of the appropriation plus other sources of funds, such as offsetting collections, unobligated balances from prior years, and transfers, less the sequester and other budget reductions.

asserted impact. As agreed with your office, we did not verify the information obtained.

## Sequester's Impact

Using OMB instructions, the Department of Education applied the sequester of $266.1 million to 14 of its 19 sequestrable budget accounts with budget authority. Under the sequester rules, the other five accounts were not required to take any reductions. The sequestered amount, which was 1.1 percent of the Department's fiscal year 1990 budget authority, was below the anticipated 1.4-percent reduction because appropriations passed by the Congress after the October sequester deadline differed from the estimates OMB used to calculate the sequester amounts specified in its final report. Except for the Guaranteed Student Loan account and Vocational Rehabilitation state grants, which were sequestered under special rules, sequesters against individual accounts ranged from 1.4 to 1.2 percent, depending on each account's enacted appropriation. The Department was not subject to any across-the-board reductions pertaining to other legislation.

The sequester's impact on the Department's largest programs was judged by agency representatives to be minimal. For example, planned increases in per-pupil expenditures under chapter 1 grants for educationally disadvantaged students and education grants for handicapped students were reduced, but still grew beyond fiscal year 1989 levels, as did grants to states for rehabilitative services. An estimated 14,000 students will not receive Pell grant awards averaging $200, and grant awards to about one-third of the estimated 3.2 million grantees will be reduced by an average of $50. However, the Department considers this reduction to be minor for the $4.8 billion Pell Grant Program.

Special rules under the Balanced Budget and Emergency Deficit Control Act of 1985 affected the Stafford Student Loan Program. The Department temporarily (1) increased fees to student borrowers who obtained their first loans and (2) reduced the government's interest subsidies. These changes, which applied to only those new loans made during the first 3 months of fiscal year 1990, were judged by the Department to be slight and were not expected to reduce the availability of loans to eligible students.

Only Program Administration and the Office for Civil Rights reported negative impact, and that was the result of a combination of other budget problems and not the sequester alone.

As requested by your office, we did not obtain written comments on this fact sheet from the Department of Education or other interested parties. However, we discussed its contents with Department officials and incorporated their views where appropriate.

As agreed with your office, unless you publicly announce the contents of this fact sheet earlier, we will not distribute it until 30 days from its issue date. At that time, we will send copies to the Secretary of Education; the Director, OMB; the Director, Congressional Budget Office; other congressional committees; and other interested parties. Should you wish to discuss its contents, please call me on (202) 275-1793. Other major contributors are listed in appendix IV.

Sincerely yours,

Franklin Frazier

Franklin Frazier
Director, Education
and Employment Issues

# Contents


| | | |
|---|---|---|
| Letter | | 1 |
| Appendix I Rules for Sequestration When Appropriations Are Passed After the Sequester Deadline | | 8 |
| Appendix II Sequester Implementation | | 9 |
| | Final Sequester Taken Differed From Final Sequester Report | 10 |
| | Special Rules Affected Two Accounts | 10 |
| | Activities in Accounts Were Sequestered in Proportion to Their Appropriations | 11 |
| Appendix III Overall Impact on Agency Was Not Severe | | 12 |
| | Post-Sequester Funding for Largest Grant Programs Exceeded Fiscal Year 1989 Levels | 12 |
| | The Department Anticipated No Adverse Impact on Major Program Recipients | 13 |
| | Two Department Accounts Experienced More Severe Effects From the Sequester | 14 |
| Appendix IV Major Contributors to This Fact Sheet | | 16 |
| Tables | | |
| | Table I.1: Hypothetical Sequester Order Estimates Before Appropriation Acts | 8 |
| | Table I.2: How Real Increases in Hypothetical Appropriations Are Protected From Sequestration and Decreases Are Credited to Sequestration Requirements | 8 |
| | Table II.1: Sequester for the Department of Education (Fiscal Year 1990) | 9 |

Table III.1: Comparison of Fiscal Years 1989 and 1990 Appropriations for the Department of Education's Largest Grant Programs 13

## Abbreviations

| | |
|---|---|
| FTE | full time equivalent |
| LEA | local education agency |
| OMB | Office of Management and Budget |
| OPBE | Office of Planning, Budget, and Evaluation |

# Rules for Sequestration When Appropriations Are Passed After the Sequester Deadline

Certain rules apply when appropriations have not been enacted by October 15, the sequestration deadline. In such cases, the law requires that an assumed appropriation level—the sequester base—be used for making the sequester computation. That level in most cases is the prior year appropriation adjusted upward for price inflation, estimated as specified in the act. In the event that the appropriation finally enacted is less than the assumed level, the decrease is counted toward ("credited to") the sequestration requirement. Depending upon the degree of the enacted decrease, the sequester amount and percentage are reduced or totally eliminated. On the other hand, if the final appropriation is larger than the assumed level, the sequestered amount does not change, but the effective sequester percentage goes down.

Tables I.1 and I.2 illustrate how real increases in hypothetical appropriations are protected from sequestration and decreases are credited to sequestration requirements. In fiscal year 1990, the Department's appropriations act was enacted on November 21, 1989, and consequently the Department was subject to these rules.

**Table I.1: Hypothetical Sequester Order Estimates Before Appropriation Acts**

| Account | Sequester base (1989 appropriation + inflation) | Sequester (1.4 percent) | Net appropriation | Percent of appropriation |
|---|---|---|---|---|
| 1 | $100,000 | $1,400 | $98,600 | 1.4 |
| 2 | 100,000 | 1,400 | 98,600 | 1.4 |
| 3 | 100,000 | 1,400 | 98,600 | 1.4 |

**Table I.2: How Real Increases in Hypothetical Appropriations Are Protected From Sequestration and Decreases Are Credited to Sequestration Requirements**

| Account | Appropriation (fiscal year 1990) | Actual sequester | Net appropriation | Percent of appropriation |
|---|---|---|---|---|
| 1 | $110,000 | $1,400 | $108,600 | 1.3 |
| 2 | 99,000 | 400 | 98,600 | 0.4 |
| 3 | 98,000 | 0 | 98,000 | 0 |

# Sequester Implementation

The fiscal year 1990 sequester reduced the Department of Education's budgetary resources by $266.1 million, or 1.1 percent, of its $24.5 billion budget authority. Using instructions issued by the Office of Management and Budget, the Department sequestered 14 of the 19 sequesterable budget accounts with budget authority. Sequestered amounts ranged from $271,000 for the Office of the Inspector General to $84 million for Student Financial Assistance, which finances Pell grants, Perkins student loans, and other campus-based student financial aid programs. (See table II.1.)

**Table II.1: Sequester for the Department of Education** (Fiscal Year 1990)

Dollars in thousands

| Account | Sequesterable budget authority | Sequester | Percent of budget authority |
|---|---|---|---|
| Indian education | $74,658 | $1,038 | 1.4 |
| Impact aid | 732,352 | 0 | 0 |
| Compensatory education | 5,434,777 | 66,416 | 1.2 |
| School improvement | 1,414,395 | 17,653 | 1.2 |
| Bilingual education | 188,674 | 0 | 0 |
| Handicapped education | 2,083,776 | 28,521 | 1.4 |
| Rehabilitation services | 1,804,870 | 24,658 | [a] |
| Special institutions | 110,893 | 1,517 | 1.4 |
| Vocational and adult education | 1,145,188 | 15,670 | 1.4 |
| Student financial assistance | 6,175,097 | 84,331 | 1.4 |
| Higher education | 632,736 | 8,205 | 1.3 |
| Guaranteed student loans | 3,868,826 | 12,482 | [a] |
| College housing/ academic facilities | 35,129 | 0 | 0 |
| Howard University | 182,446 | 0 | 0 |
| Libraries | 136,646 | 0 | 0 |
| Research and statistics | 96,375 | 1,134 | 1.2 |
| Program administration | 276,946 | 3,643 | 1.3 |
| Office for Civil Rights | 45,178 | 606 | 1.3 |
| Office of the Inspector General | 23,381 | 271 | 1.2 |
| **Total[b]** | **$24,462,343** | **$266,145** | **1.1** |

[a]Sequestered amount was calculated under special rules.

[b]Other nonappropriated spending authority in the college housing loans account was sequesterable, but because it received no authority in fiscal year 1990 and no sequester was taken, we have excluded it from this table.

## Final Sequester Taken Differed From Final Sequester Report

The Department's final sequester amount fell below the $284.7 million specified in OMB's Revised Final Sequester Report, issued December 27, 1989. This occurred because certain rules apply to sequester calculations when agency appropriations acts are enacted after the October 15 sequester deadline. Appropriations enacted for the Department's accounts in November 1989 varied from the sequester bases OMB used to compute the 1.4-percent across-the-board sequester, as mandated by the Omnibus Reconciliation Act of 1989.

Under the rules governing sequestration in these circumstances, the agencies were to sequester each account on the basis of its fiscal year 1990 appropriation compared to the sequester base used by OMB to compute the sequester amounts shown in its December report. The sequester base for most Department of Education programs was the fiscal year 1989 appropriation plus an inflation factor. The maximum sequester for any account was 1.4 percent, specified by OMB in its December report; the minimum was "none" if the agency's 1990 appropriation was less than OMB's sequester base after the 1.4-percent reduction. This methodology, reiterated by the Department in its own internal guidance, resulted in five accounts being subject to the full 1.4-percent sequester while the others were reduced—ranging from 1.3 to 0 percent. See appendix I for a more detailed explanation of these rules.

## Special Rules Affected Two Accounts

Special rules in the Balanced Budget and Emergency Deficit Control Act of 1985 prescribed a different methodology for applying the sequester to two of the Department's accounts—Rehabilitation Services and Guaranteed Student Loans. The sequester on vocational rehabilitation state grants reduced the amount of the automatic cost-of-living increase applied to the program. The special rule pertaining to guaranteed student loans (1) reduced the first-year interest subsidy payments to lenders of Stafford student loans by 0.25 percent and (2) increased the origination fee charged to these loan borrowers from 5.0 to 5.5 percent. Under the Omnibus Reconciliation Act of 1989, the sequester measures applied only to those Stafford loans made between October 1 and December 31, 1989. The Department did not expect the sequester to otherwise alter loan availability to recipients.

## Activities in Accounts Were Sequestered in Proportion to Their Appropriations

The Department of Education sequestered appropriations for activities within budget accounts proportionally. Examples of Department of Education activities are the chapter 1 program's basic and concentration grants in the Compensatory Education for the Disadvantaged account.

Using this methodology, the Department generally reduced the activities within a sequestered account by the same percentage as the reduction against the total account. For example, activities within the Compensatory Education for the Disadvantaged account, which included chapter 1 and migrant education programs, were reduced by 1.2 percent, as was the total account.

# Overall Impact on Agency Was Not Severe

Officials in the Department's Office of Planning, Budget, and Evaluation (OPBE), which applied the sequester reductions to the budget accounts, did not believe the sequester's overall impact to be severe. Although OPBE officials said that the Department's Program Administration and Office for Civil Rights accounts were most negatively affected, their budgetary resources were constrained by other circumstances as well as the sequester.

Even with the sequester's $266.1 million reduction, the Department's budget authority increased from $23 billion in fiscal year 1989 to $24.2 billion in fiscal year 1990—an increase of 5.1 percent. The impact was also less severe because many of the Department's programs are forward-funded. For forward-funded programs, such as Pell grants and chapter 1 grants, funds are appropriated at the start of the fiscal year; however, the Department may not award or disburse funds until several months later for use into the next fiscal year. This allowed the Department and state and local education agencies time to make adjustments with minimal disruption to the programs.

In addition, the Department was not mandated to take any other across-the-board reductions in its fiscal year 1990 appropriations to comply with other legislation. The Department's Program Administration account, however, absorbed a $4.3 million pay increase, which reduced funds available for administrative activities throughout the agency.

## Post-Sequester Funding for Largest Grant Programs Exceeded Fiscal Year 1989 Levels

Although the sequester reduced fiscal year 1990 appropriations for the Department's largest grant programs, total appropriations for the programs exceeded prior year levels. (See table III.1.)

**Table III.1: Comparison of Fiscal Years 1989 and 1990 Appropriations for the Department of Education's Largest Grant Programs**

Dollars in millions

| Program | Appropriations | | Sequester | Fiscal year 1990 less sequester | Fiscal year 1990 increase | |
|---|---|---|---|---|---|---|
| | Fiscal year 1989 | Fiscal year 1990 | | | Amount | Percent |
| Chapter 1 grants to LEAs | $4,026 | $4,827 | $59 | $4,768 | $742 | 18.4 |
| Pell grants | 4,483 | 4,871 | 67 | 4,804 | 321 | 7.2 |
| Handicapped education state grants | 1,475 | 1,564 | 21 | 1,543 | 68 | 4.6 |
| Rehabilitation services state grants | 1,450 | 1,550 | 22 | 1,528 | 78 | 5.4 |

## The Department Anticipated No Adverse Impact on Major Program Recipients

The Department prepared a statement on the impact of the sequester on its five largest programs—the four grant programs shown in table III.1 and the Guaranteed Student Loan Program. With the exception of Pell grants, the Department concluded that the sequester would not adversely affect program recipients.

The $67 million sequester of the Pell Grant Program will, for school year 1990-91, eliminate grant awards averaging $200 to 14,000 students, and reduce awards to 1.3 million other students by an average of $50 each. The Department considered these reductions relatively small when compared to the estimated 3.2 million recipients for fiscal year 1990 whose grant awards averaged $1,600. The maximum grant is $2,300.

The sequester will reduce fiscal year 1990 increases in per-pupil expenditures for both chapter 1 and handicapped education grants to states and LEAs. Due to increased 1990 appropriations, however, per-pupil-based expenditures will nonetheless exceed fiscal year 1989 levels. Rehabilitation Services state grant funding increased by $78 million over fiscal year 1989, and the Department expects no recipients to suffer from lost revenues.

Under the special rules, the sequester of Guaranteed Student Loan Programs (1) decreased the government's payment to lenders for the Stafford loans' first-year interest subsidy and (2) increased the origination fee charged to borrowers. The Omnibus Reconciliation Act of 1989 limited these measures to new loans made between October 1 and December 31, 1989. The Department considered the changes to be slight and expected no reductions in loan volume to result.

## Two Department Accounts Experienced More Severe Effects From the Sequester

Because factors other than the sequester also affected their budget resources, the Department's account for Program Administration, which provides most of the funds for salaries, travel, and other administrative activities, and the account for the Office for Civil Rights were more adversely affected by the sequester than other accounts. Despite the sequester, however, we found that the fiscal year 1990 appropriations for the Program Administration and Office for Civil Rights accounts increased by 9.1 and 7.1 percent, respectively, over fiscal year 1989. In addition, both accounts had 7 percent more in obligation authority in fiscal year 1990 than in fiscal year 1989.

### Sequester Decreased Funds Available for Administrative Activities

The $3.6 million sequester against the Program Administration account resulted in reductions or delays in fiscal year 1990 planned travel, computer procurements, and office improvements throughout the Department. Additionally, it experienced some restraint in hiring, and expects to employ about 70 full-time-equivalent (FTE) personnel less than its planned fiscal year 1990 ceiling. But, because it was also forced to absorb a $4.3 million across-the-board pay raise out of this account, the Department found it difficult to isolate the sequester as the source of the administrative reductions from other funding cutbacks.

Officials in the Department's three program offices having responsibility for the five largest programs—the Offices of Elementary and Secondary Education, Postsecondary Education, and Special Education and Rehabilitative Services—concurred with the description of the effects of the sequester on administrative functions in their offices. The Office of Postsecondary Education also attributed to the sequester reducing the size and, therefore, information included in a student aid handbook available to the public. The officials described the cuts in travel as reductions in fiscal year 1990 planned trips, not as reductions below the prior year's appropriations, because travel funds increased over 1989. None of the offices anticipated any adverse impact on on-board staff levels—cuts or furloughs—from the sequester.

### Sequester Aggravated Existing Financial Difficulties in the Office for Civil Rights

Because the $0.6 million sequester and absorption of the costs associated with the pay raise combined with existing financial difficulties, the Office for Civil Rights was reported to be the most adversely affected of the Department's sequestered accounts.

According to Office for Civil Rights' officials, the financial difficulties began with enactment of The Civil Rights Restoration Act (P.L. 100-259)

in 1988. This law restored authority limited by a 1984 Supreme Court decision (Grove City College v. Bell, 465 U.S. 555) and triggered a dramatic increase in the number of discrimination complaints requiring action. In fiscal year 1987, the office reported it began 943 complaint investigations; for fiscal year 1990, it is projecting 1,682 such starts. However, the office maintained that its staffing levels and other resources failed to keep pace with the growing work load, partly because of how the Department develops its budget, using projections developed from current year outlays. Since fiscal year 1987, the personnel ceiling for the office decreased from 840 to 820 FTE positions for fiscal year 1990.[1] During the same time period, the office reported a drop in compliance review starts—which it considered to provide the greatest return on its resource use—from 240 in fiscal year 1987 to 24 in fiscal year 1990, because resources were concentrated on the growing complaint work load.

According to Office for Civil Rights officials, the office's financial problems affected its ability to (1) meet commitments on contractor-performed school surveys, (2) upgrade obsolete computer equipment, (3) provide training to staff and technical assistance to its constituents, and (4) necessitated some travel restrictions. In addition, because the office was employing more FTE staff than its salaries and benefits budget could support, they believed the sequester and other funding shortages might result in staff furloughs unless employee attrition increases or other financial relief is obtained.

[1]OPBE indicated that for fiscal years 1987 through 1989 the office's actual FTE usage was 807, 808, and 789 compared to FTE ceilings of 840, 820, and 820.

# Major Contributors to This Fact Sheet

| | |
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